

August 2, 2021

Ann Misback
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Avenue NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Potential Modifications to the Federal Reserve Policy on Payment System Risk To Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service (Docket No. OP-1749)

Dear Ms. Misback:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (Board) Potential Modifications to the Federal Reserve Policy on Payment System Risk To Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service.¹

HCUA appreciates the Board and Board staff's diligence in making the decisive decision to develop the FedNow payments system. Developing and implementing this real-time payments network is necessary as the market needs the Federal Reserve to develop this new payments rail to address a void that the private sector cannot fill with the footprint and trust of the Federal Reserve. We understand that the Board will need to make many adjustments to operating procedures and regulations to incorporate the operations of FedNow into the Federal Reserve System. The amendments to the Policy on Payments System Risk (PSR) should help the Board transition to FedNow; however, we encourage the Board to continue to work with credit unions and other financial institutions as adjustments may be necessary as FedNow becomes operational.

Access to Collateralized Capacity

The Board is authorized to oversee Reserve Banks providing intraday credit to Reserve Bank account holders.² The Board states that its objective with these amendments is to "better align the PSR policy with the Board's objectives to reduce the reliance of the banking industry on uncollateralized intraday credit while ensuring the smooth operation of payment and settlement systems."³ To accomplish this objective, the Board is expanding access to collateralized capacity. The PSR policy does appear to make access to collateralized capacity available to a wider array of financial institutions by allowing that a "domestic institution would be eligible to request collateralized capacity if its Prompt Corrective Action (PCA)

¹ 86 Fed. Reg. 29,776 (June 3, 2021).

² Section 11(j) of the Federal Reserve Act.

³ 86 Fed. Reg. 29,776 at 29,782.

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designation is undercapitalized,' 'adequately capitalized,' or 'well capitalized.'"⁴ Furthermore the PSR policy allows that an "institution requesting collateralized capacity above its net debit cap must provide a business case outlining its need and must submit an annual board of directors resolution approving its collateralized capacity."⁵ Collateralized capacity under the max cap program is available only to institutions that have first completed a self-assessment. These steps appear to expand access and reduce the administrative burden for financial institutions.

We encourage the Board to be mindful of these requirements as they relate to the eligibility for access to Reserve Bank accounts and services and the consistent application of standards across the Reserve Banks.⁶ We remain concerned that nonregulated entities continue to seek broadening access to Reserve Bank accounts and services without meeting the capital and supervision requirements in place for insured and regulated credit unions and banks. The Board's goal should be to apply a similar level of requirements with processes to ensure compliance as is in place for a federal or state regulated credit union or bank. Any entity not meeting these requirements should be denied access to the payments system.

Definition of "Business Day"

We support the Board's amendment to the definition of "business day" as this is necessary for the 24-hour operation of FedNow. The 24-hour business day will cause the opening of the FedNow Service to occur immediately after close. This aligns with the availability of credit on a 24-hour basis for daylight overdrafts; however, we are concerned about the increase in cost resulting from the update to the definition of "business day."

Daylight Overdraft and Penalty Fee Calculations

We understand that the Board needs to revise the daylight overdraft and the penalty fee calculations for all institutions in order to reflect the 24-hour business day; however, we encourage the Board to do so in a manner that results in no overall increase in fees. According to the Board, the move to a 24-hour business day will cause gross fees before the application of fee waivers to increase by "less than 0.4 percent."⁷ Credit unions do not support any increase in fees.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,



Brad Douglas
President/CEO

⁴ Id at 29,778.

⁵ Id.

⁶ Proposed Guidelines for Evaluating Account and Services Requests (Docket No. OP-1747), 86 Fed. Reg. 25,865 (May 11, 2021) and HCUA comment to the Board dated July 12, 2021.

⁷ 86 Fed. Reg. at 29,780.